



**Director of  
Central  
Intelligence**

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**CENTRAL AMERICA: Efforts at Dialogue**

*The "Contadora" Foreign Ministers from Panama, Mexico, Colombia, and Venezuela apparently have made limited progress in promoting a dialogue, but the Central Americans still seem to be at odds over several key issues.* [redacted]

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A Venezuelan official has announced that the five Central American states will meet in Panama next week, with the Contadora ministers as observers. The meeting is intended to produce an agenda for a subsequent multilateral gathering, with the presence and role of observers still to be determined. [redacted]

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Nicaragua's reaction to the visit of the Foreign Ministers is unknown. Recent Sandinista communiques issued before the visit, however, insisted on direct bilateral talks. They also emphasized the withdrawal of insurgent forces from Nicaragua is an essential precondition to any peace process in the region. [redacted]

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The Contadora group is endorsing bilateral talks as a means of inducing Nicaragua to attend a regional meeting, a tactic supported by Costa Rica. According to US Embassy officials, however, both Guatemala and Honduras have reiterated to the visiting ministers their opposition to bilateral meetings. [redacted]

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Salvadoran Foreign Minister Chavez Mena says his government has agreed in principle to a regional meeting under Contadora sponsorship. He also indicated El Salvador would participate in bilateral discussions with Nicaragua, a major departure from its previous position. [redacted]

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**Comment:** The announcement of the meeting in Panama may be premature. Although the Central Americans were generally impressed by the willingness of the four Contadora ministers to listen to individual concerns, they appear more deeply divided than ever over accommodating Nicaragua's demands for bilateral meetings. [redacted]

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El Salvador's apparent concession may reflect a desire to improve its image and to obtain an equal concession from Nicaragua. The Salvadorans—as well as the Hondurans—would demand clear guarantees of Sandinista willingness to participate in a regional meeting before holding bilateral talks. Pressure to gain such guarantees would fall on Mexico, the Sandinistas' only supporter in the immediate area. [redacted]

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**WESTERN EUROPE-MIDDLE EAST: Support for US Initiative**

*The UK, West Germany, and Italy continue to support the US Middle East peace initiative despite the Jordanian Government's statement on future peace negotiations.*

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A senior British Foreign Office official has indicated his government remains convinced that the US initiative is still viable and that it will oppose any attempt by other EC members to develop a West European alternative. He added, however, that there are no signs of any EC interest in pursuing such a course.

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The official also noted the UK's belief, based on Foreign Secretary Pym's conversations this week with Arab leaders, that the US has to take quick action on troop withdrawals from Lebanon to improve its credibility in the region. Without such action, London believes Arab moderates will not push the PLO to reverse its opposition to Jordanian participation in peace talks with Israel. According to the official, King Hussein told Pym that his government's announcement had been designed to shock both the US and PLO moderates into moving more decisively.

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A West German Foreign Ministry official has said Bonn also continues to back the US initiatives because there is no realistic alternative. According to a senior Italian Foreign Ministry official, Rome hopes the combination of the PLO's desire to avoid domination by its more radical elements and the stark choices arising from Jordan's decision will prompt the Palestinian leadership to become more flexible.

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**Comment:** The French and the other West Europeans are likely to share the British, West German, and Italian views. As a result, they probably would not now support measures that would complicate US peace efforts. If anti-Western sentiment in the Middle East grows, or if the USSR launches its own initiative, the West Europeans might make a dramatic gesture to protect their interests in the region.

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**SURINAME: Domestic Policy Program**

*The regime is preparing a program that is likely to introduce some radical policy shifts, but it probably will meet with little domestic opposition.* [redacted]

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The new policies will be announced on 1 May, according to the state-controlled press. The US Embassy reports the regime intends to reorient the education system by revising the country's history, launching a six-month "literacy" campaign, and giving more attention to students from the lower class. [redacted]

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[redacted] Influential radicals—primarily in the Revolutionary People's Party—are urging the government to nationalize foreign bauxite operations as well as banks and insurance companies. In addition, rumors are circulating in Paramaribo that the government may soon require the repatriation or taxation of assets held abroad. [redacted]

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The Embassy believes that many Surinamers are already resigned to a changed system and that the regime faces few obstacles in consolidating its revolution. Some Surinamers hope, however, that Prime Minister Alibux's party—the Progressive Workers' and Farmers' Union—will adopt pragmatic economic and social policies once it grows tired of radical approaches. [redacted]

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**Comment:** The regime previously has been slow to put its plans into effect. The latest program also is likely to take time getting off the ground. Nevertheless, the fading of domestic opposition considerably improves the ability of the controlling radical minority to institutionalize its power. [redacted]

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Nationalization of the bauxite industry would aggravate economic problems because the government lacks the technical expertise and personnel to manage its operations. Alibux's party, which staffs the economic ministries, reportedly opposes such a move. The party probably will prevail, unless President Bouterese—who tends to make impulsive decisions—decides to view nationalization as appropriate retaliation for alleged Dutch and US meddling in Surinamese affairs. [redacted]

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**JAPAN-USSR: Espionage Disclosures**

*The official response in Tokyo to press reports of Soviet agents in the government has been low key, although there is concern about future public reaction.*

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Japanese newspapers, citing extracts of a manuscript prepared by KGB defector Stanislav Levchenko, have named eight prominent Japanese, including a former Liberal Democratic Party Labor Minister, as Soviet agents. The newspapers claimed the KGB had another 23 agents in the Foreign Ministry, within the intelligence community, and among politicians, although no names were given.

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Foreign Ministry officials have said publicly that their investigations had uncovered no evidence to support Levchenko's charges. According to other high-level government officials, however, the investigations are continuing.

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**Comment:** Tokyo probably will continue its tactic of casting doubt on the charges while suggesting it is pushing ahead with an investigation. The issue, however, could be embarrassing for all those connected with the charges.

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Many of those named were members of or connected to leftwing opposition parties. At the same time, the ruling party is accused of formerly having had a Soviet agent as a cabinet minister.

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Levchenko's complete manuscript will be available to the public next week. If popular reaction builds and focuses on Soviet penetration of the government, some high-level officials, perhaps in the security services, may have to resign. The Liberal Democrats, who face important local elections on 24 April and national elections this summer, will be particularly eager to avoid a scandal.

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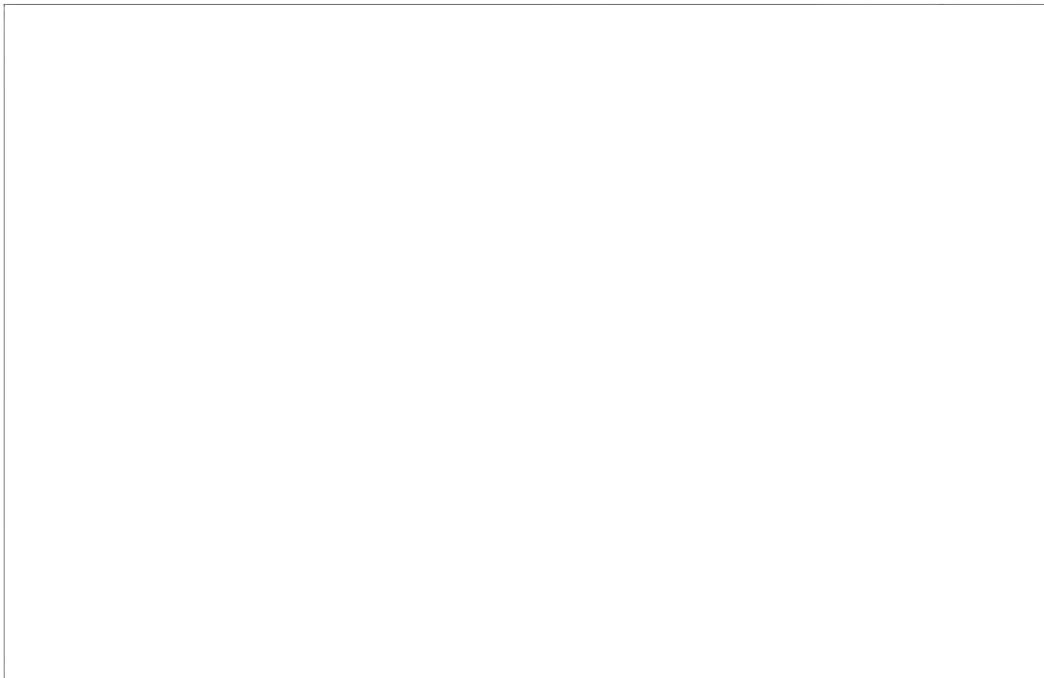
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**SAUDI ARABIA: Budget Deficit**

Saudi Arabia's budget for the fiscal year that began yesterday represents a new effort by the government to deal with falling oil income. Revenues are projected to decline to about \$65 billion, down \$5 billion from the last fiscal year. Spending is projected at \$75 billion.

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**Comment:** King Fahd's public promotion of the new economic program seems intended to deflect charges that he has neglected his official duties and avoided dealing with domestic issues. Defense Minister Sultan and other members of the royal family who have vested interests in continuing many costly projects probably will resist substantial cuts in spending. The new budget appears to be overly optimistic both on projected revenues and on Riyadh's ability to hold down spending.

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## **Special Analysis**

### **PLO: Marking Time**

*The PLO is holding firm to its demands for direct participation in Middle East negotiations and the creation of a Palestinian state. The PLO consensus behind these demands seems strong enough for now to make any reversal of the position highly unlikely.*

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PLO chief Arafat's failure to obtain support from his own Fatah organization for the agreement he reached with King Hussein providing for Jordanian representation of the Palestinians has damaged his credibility. There is a perception even among Arafat's closest advisers that he blundered by accepting Hussein's offer without prior assurances from his colleagues that they would go along with the deal.

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Arafat's position as Fatah and PLO leader is not threatened, but his freedom of action has been reduced. He will be forced even more than in the past to adhere to the guidelines established by the PLO's National Council and Executive Committee. This will diminish his ability to take new initiatives in support of a negotiated solution to the Palestinian issue.

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It is now clear that even PLO moderates are unwilling to compromise on their demand for a separate Palestinian state and recognition of the PLO as the sole representative of the Palestinians. They rejected the concept of a negotiating team of Jordanian and non-PLO Palestinians even though the PLO would be given a major voice in selecting the Palestinians. The PLO consensus thus has hardened in support of minimum demands that Jordan, Israel, and the US consider unacceptable as a basis for talks.

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In the near term the PLO is unlikely to change its position. Although Arafat and his associates apparently have no plan of their own for achieving their objectives, they are unwilling to risk their organization—and perhaps their lives—for the uncertainties of negotiations in which they are not participants.

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Arafat and his advisers will try to deflect criticism by blaming Jordan, the US, and Israel for the breakdown in the talks with Hussein. They also will insist that they are acting in strict accordance with the Fez declaration of last September, which reaffirmed the PLO's key role and the Palestinians' right to an independent state.

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### **Reaction in the West Bank**

The Palestinians in the West Bank appear to agree that the US and Jordan are responsible for the collapse of the Arafat-Hussein talks. Press commentary and statements by local notables are criticizing the US for failing to push Israel into making concessions. Hussein's withdrawal from the talks is viewed as only a tactic to force the PLO to compromise.

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Some West Bank moderates are more critical of the PLO, however, and their viewpoint may become more widespread as the realities of the situation begin to sink in.

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Increasing numbers of West Bankers and Gazans are likely to conclude the PLO is more interested in its survival than in advancing Palestinian political goals. The West Bank notables are divided among themselves, however, on how to approach the peace process.

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None of the notables has the stature to organize an effective political movement or to step forward as a credible representative in negotiations involving Jordan and Israel. Fear of being the target of a radical Palestinian hit squad also will inhibit involvement.

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### **Relations with Amman**

PLO relations with Jordan will be strained despite statements by both sides calling for close ties. Recriminations over the collapse of the talks will create animosity.

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The Jordanians almost certainly will tighten security measures to assure controls over PLO activities in Jordan. They probably will expel some PLO officials allowed to reside in Jordan while ties were improving. [redacted]

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Relations will deteriorate if Jordan closes the border with the West Bank. Such a move would be intended to symbolize the devolution to the PLO of all responsibility for the future of the West Bank and Gaza. The Jordanians would claim the PLO had to assume responsibility for any human suffering caused by the consequent halting of emigration by West Bankers displaced by Israeli settlements. [redacted]

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If the stalemate in the talks continues, PLO radicals are certain to increase efforts to attack Israeli targets from Jordan. Jordanian interdiction efforts will contribute to PLO-Jordanian tensions. [redacted]

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### **Prospects**

If an Arab summit proposed by Morocco's King Hassan is held in the near future, it is unlikely to alter previous declarations. Some Arab moderates will try to persuade Arafat to reach an agreement with Jordan, but Arafat would rather face their disapproval and diminished support from West Bank and Gaza Palestinians than risk new divisions within the PLO. [redacted]

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Arafat and the PLO majority still favor the concept of negotiations. [redacted]

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If talks between Arafat and Hussein resume, they probably will be limited to general discussions of bilateral affairs. A freeze on settlements might be enough of a positive signal for Arafat to resume talks with Hussein on a joint negotiating strategy. [redacted]

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Nonetheless, Arafat probably would still be unwilling to surrender the PLO demands for direct participation in negotiations and the ultimate creation of a Palestinian state. His position on these key issues is likely to change only in the event a strong West Bank-Gaza consensus develops in opposition to the PLO's hardline demands, or if the Arab states unite in urging the PLO to compromise. [redacted]

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## **Special Analysis**

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### **MEXICO: Economic and Political Trends**

*Mexican economic policies, designed to ease foreign payments problems, are forcing substantial reductions in imports and production despite clear government concern to soften the impact on key interest groups. Inflation nevertheless hovers around 100 percent. Although the IMF says Mexico was in compliance with its program through March, by midyear Mexico is likely to try to persuade the IMF to modify its requirements for austerity measures. To help prevent the opposition from making large gains as a result of economic difficulties, efforts are under way to revitalize the ruling party. In dealing with the problems of the region, President de la Madrid's prominent activity on Central America is in line with his predecessor's policies.*

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De la Madrid's efforts to cope with foreign payments problems without badly damaging the domestic economy have yielded mixed results. External accounts have been adjusted by severely devaluing the peso and adopting an austerity program required by the IMF as a condition for help.

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Greatly reduced imports have increased Mexico's trade surplus and have helped push its current account closer to balance. Nevertheless, the government has not been able to rebuild reserves or reduce debt arrearages because some capital flight continues.

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Meanwhile, industrial production is off dramatically and local supplies of goods are dwindling. Because of continuing high domestic demand, inflation remains high.

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The President, however, has made concessions to powerful interest groups that tend to temper the austerity program, backing away from the spirit of the IMF agreement. Although investment in the public sector has been substantially reduced, the government work force has grown and large subsidies remain on at least 300 basic consumer goods and services. Moreover, the nationalized banks have kept interest rates significantly below the inflation rate.

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### **Problems in Building Confidence**

The government's cuts in spending, multiplying bankruptcies and unemployment, and the drop in oil prices have hindered restoration of public confidence, which was shaken during the troubled presidential transition. Mexicans are nervous about the future and doubt the

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administration can restore prosperity in the near term. The President's failure to prosecute former officials accused of corruption has increased skepticism about his commitment to change. [redacted]

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The ruling party is trying to improve its own reputation further to build support for de la Madrid and offset criticism that the poorest sectors are suffering most. Watchdog committees have been established to protect consumers, and others are planned to monitor corruption. Progress is being made in plans to open up the party's process on selecting candidates. [redacted]

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Although most interest groups remain quiet, organized labor appears increasingly restless. The unions have not abandoned the four-month-old solidarity pact among labor, government, and management, but recent increases in milk and gasoline prices have prompted demands to implement rent controls and to move forward—or increase—a pay raise promised for this summer. De la Madrid is likely to try to mollify labor by advancing the date of the wage hike. [redacted]

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Despite the recession, most businessmen appear willing to give de la Madrid time. Government acquiescence to demands for emergency wage hikes, however, would rekindle fears of a return to former President Lopez Portillo's antibusiness policies. [redacted]

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### **Deepening Financial Problems**

Many international bankers believe de la Madrid is not taking sufficiently firm austerity measures. Because of delays in arranging the \$5 billion commercial credit and overwhelming legal problems, progress in addressing debt-service problems has been slow. Mexico City has asked its creditors for a second extension—to 15 August—of the moratorium on repayment of principal. [redacted]

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The private sector has been unsuccessful in reducing its overdue debts, but the government plans to establish a subsidized exchange rate aimed at rescuing at least the more prosperous elements from insolvency outside Mexico. Many foreign creditors are likely to agree to reschedule the private debt, rather than continue demanding repayments that many firms are unable to make. Agreement is not likely, however, until the complicated process of rescheduling the much larger public-sector debt is completed. [redacted]

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Weak world demand for oil is likely to continue to erode Mexican oil revenues, which probably will fall as much as \$3 billion below last year. Returns on natural gas exports are likely to drop \$100-150 million from last year even if prices are lowered to induce US customers to restore some of their recent large cuts in purchases. [redacted]

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De la Madrid will be likely to seek adjustments in IMF constraints on overseas borrowing, the public-sector deficit, and monetary policy. Although the IMF probably will agree to respond favorably to some changes, international bankers probably will be reluctant to provide additional credit or to offer relief on interest obligations. Mexico, consequently, is likely to ask Western nations and international financial organizations to increase their lending. [redacted]

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Without cooperation from international financiers, de la Madrid may expand the current moratorium on principal payments to include interest obligations as well. Opposition leftist politicians recently have demanded such action. [redacted]

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### **Policy on Central America**

The spreading violence in Central America has prompted de la Madrid to become more prominently active in regional affairs. In contrast to Foreign Minister Sepulveda's unheralded role in the original "Contadora" meeting, the President held several well-publicized talks last week with leaders of neighboring countries. Mexican criticisms of US policies as misguided have been coupled with public expressions of continuing strong support for Nicaragua.

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Mexico is unlikely to end its economic aid to the region. US Embassy officials indicate that, while financial difficulties may force cutbacks, the joint Mexican-Venezuelan oil facility probably will be renewed this summer. [redacted]

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